106th Congress, 1st Session: No. 15 **June 1, 1999**

INFORMED BUDGETEER

HEADLINE ACT: SCENE II

- Last week's *Bulletin* outlined the process for the Appropriation Committees to allocate spending authority and outlays within their jurisdiction for the upcoming fiscal year. The FY 2000 Congressional Budget Resolution hewed to spending caps established in the 1997 Budget Agreement.

- The House Appropriations Committee 302(b) allocation of $538 billion in BA and $578 billion in outlays to its 13 subcommittees was completed on May 19. The Senate Appropriations Committee on a vote of 24-3 adopted its 302 (b) allocations of the same statutory spending limits on May 25. (Both are adjusted to reflect the recently enacted FY1999 Emergency Supplemental.)

- The following table compares the Senate's FY 2000 allocation to spending levels enacted for 1999 (excluding one-time spending items) and to the House Appropriation Committee's FY 2000 allocations. Two key assumptions are included in the Senate's allocation: (1) FCC spectrum auction, and (2) a "14th subcommittee" deficiency allocation.

- The Senate 302(b) assumes that an FCC spectrum auction sale authorized and planned for FY 2001 will take place in FY 2000 and that the receipts from that advance will result in $2.6 billion in offsets to fund FY 2000 discretionary spending. This policy was immediately incorporated into the Committee's reported FY 2000 defense spending bill and partly, explains, the lower level of aggregate spending for defense in 2000 when compared to the House's assumptions for that subcommittee.

- Second, the Committee assumed that appropriated funds in the two enacted 1999 emergency appropriations bills allowed for some reduced demand for defense. Therefore, approximately $3.1 billion in BA and $4.6 billion in outlays are being held in a special deficiency subcommittee, to be reallocated later to various subcommittees as their bills are marked up for floor consideration.

- The allocation on a Tuesday changed by the time of the Committee's mark-up of two bills - Transportation and Energy & Water - on the following Thursday. Both subcommittees received some of the deficiency subcommittee's allocation.

- Bottom Line: be prepared for moving 302(b)'s as the Committee changes these allocations throughout the summer to accommodate individual subcommittee bills.

Comparison of 302 (b) Allocations
($ in Billions)

	1999		Senate[A]: 2000		Senate vs. 1999		Senate vs. House	
	BA	OT	BA	OT	BA	OT	BA	OT
Agriculture	14.0	14.1	13.1	13.3	-0.9	-0.8	-0.8	-1.0
Commerce	32.6	30.6	32.2	32.5	-0.3	1.9	1.7	1.7
Defense	250.3	248.3	264.0	254.4	13.4	6.1	-6.6	-7.9
D.C.	0.6	0.6	0.4	0.4	-0.2	-0.2	-0.1	-0.1
Energy	21.2	20.4	21.2	20.8	0.0	0.4	1.8	1.5
Foreign ops	13.3	12.7	12.5	13.2	-0.8	0.4	2.1	1.5
Interior	13.8	14.0	13.6	13.6	-0.2	-0.4	2.2	1.9
Labor	83.8	80.4	80.4	81.1	-3.4	0.7	2.3	2.2
Legislative	2.4	2.3	2.5	2.4	0.1	0.1	-0.0	-0.1
Mil Con	8.7	9.4	8.7	9.1	0.1	-0.4	0.0	0.0
Transp.	11.9	40.8	12.1	42.9	0.2	2.1	-0.6	-0.4
Treasury	14.0	12.9	12.1	12.3	-2.0	-0.6	-1.5	-1.8
VA-HUD	71.0	80.4	62.4	77.6	-8.7	-2.8	-3.8	-2.0
Deficiencies	--	--	3.1	4.6	3.1	4.6	3.1	4.6
Total	537.6	567.0	538.0	578.1	0.4	11.1	-0.1	0.1
2000 Cap	- -	- -	538.2	578.2				

SOURCE: SBC Majority Staff. NOTE: 1999 totals exclude emergencies and other one-time items. 199 totals reestimated by CBO. [A]Includes spectrum timing shift.

TRYING TO HAVE IT BOTH WAYS: A COMEDY SCENE

- Last week the White House launched an effort to demand higher spending for discretionary programs and then blame the Republican Congress for breaking the caps.

- The President and his OMB Director are apparently set to claim both that: first, they support retaining the discretionary spending caps, and second, budgets that stick to the caps do not provide enough spending!

- What's going on here? Just two years ago, with much fanfare, the President and Congress agreed to establish caps on discretionary spending for the years 1998 to 2002 as part of the Balanced Budget Act of 1997.

- In the Congressional Budget Resolution, Congress stuck to the agreement and stayed within the caps. In fact, Congress had no real choice but to stick to the agreement because any budget resolution that violates the caps would be out of order in the Senate and would need 60 votes to prevail. Moreover, raising the caps requires changing current law, and is subject to 60 votes in the Senate as well.

- The President's budget *said* that we should stay with the caps, and claimed to stay within them. Also, during consideration of the budget resolution, no Democratic Senator ever proposed to raise the discretionary spending caps.

- According to CBO, the President's budget would exceed the FY 2000 caps by $22 billion in budget authority and $30 billion in outlays. Over the next five years, the President's budget would spend $158 of the Social Security surplus. The Congress had a chance to vote to approve the President's budget and voted it down by 426-2 in the House and 97-2 in the Senate.

- Compared to FY 1999, the President's budget would boost discretionary spending by $31 billion, or 5.4 percent. Under the President's budget discretionary spending would grow more rapidly than Social Security and would roughly equal the growth rate in the Medicare program.

- While the President's budget broke the caps, spent $158 billion of the Social Security surplus, and could only muster a total of 4 votes in both Houses of the Congress, OMB Director Jacob Lew is attacking Congress for actually meeting the spending caps.

- The OMB Director has suggested the caps could be met by increasing taxes and conducting another round of military base closures. There are two problems with this approach. First, the law does not allow tax increases to be used to meet the caps. Second, closing military bases would increase discretionary spending in FY 2000, not reduce it.

- The Clinton Administration can disagree with Congress's priorities and suggest an alternative that actually meets the caps, but it is the height of hypocrisy to demand that Congress fund all the President's programs and still meet the caps.

AN OLD ACT FROM THE PAST

- A quick comparison of estimated spending for various entitlement programs at the time of the 1997 Balanced Budget Act to 1998 actuals and 1999 preliminary estimates appear in the table that follows.

- Final figures for 1998 suggest that in the aggregate -- compared to the estimates for the same programs made at the time of the 1997 Act -- spending was $29.2 billion less. On a base of nearly $938.6 billion in mandatory spending that year - - a slight 3% positive error in estimating. Some programs were over estimated, some were underestimated.

- Similarly preliminary figures for 1999 suggest that in the aggregate -- spending for entitlement programs will be about $40 billion less than what was estimated would occur this year back in 1997. On a base of over $980 billion in entitlement spending this year another slight positive error of 4%.

- Compared to past estimating errors in these programs -- negative errors from underestimating the real costs of these programs -- these might be considered good errors to bank for the entitlement crisis that lies ahead in the next century.

Difference in CBO Projections for Mandatory Spending
(April 1999 minus September 1997, $ in Billions, Fiscal Year)

	1998	1999
Medicaid	-1.8	-2.7
State Child Health Insurance	-4.3	-2.5
Food Stamps	-2.7	-3.9
Supplemental Security Insurance	-0.1	-1.0
Family Support[A]	-5.0	-6.0
Veterans' Pensions	0.1	0.1
Child Nutrition	0.1	0.1
Earned Income Credit[B]	0.7	0.4
Student Loans	-0.4	-0.1
Foster Care	0.2	0.2
Total: means-tested programs	*-13.2*	*-18.4*
Social Security	-3.0	-9.5
Medicare	-9.7	-20.2
Federal Civilian	-0.9	-1.7
retirement/disability[C]	0.1	-0.1
Military retirement/disability	-0.1	0.8
Other retirement/disability	-2.9	-4.4
Unemployment Compensation	0.2	-0.1
Deposit Insurance	1.0	1.0
Veterans' benefits[D]	1.6	8.7
Farm Price and Income Supports	-0.5	-0.6
Social Services	-1.5	-0.1
Credit Reform Liquidating Accounts	0.4	-0.5
Universal Service Fund	-0.8	3.1
Other	*-16.0*	*-23.5*
Total: non-means- tested programs	-29.2	-40.0
All Mandatory Spending		

SOURCE: Congressional Budget Office. NOTE: Spending for benefit programs shown above generally excludes administrative costs, which are discretionary. Spending for Medicare also excluded premiums, which are considered offsetting receipts. [A]Includes TANF, Family Support, AFDC, Job Opportunities and Basic Skills, Contingency Fund for State Welfare Programs, Child Care Entitlements to States, and Children's Research and Technical Assistance. [B]Includes outlays from the child credit enacted in Taxpayer Relief Act of 1997. [C]Includes Civil Service, Foreign Service, Coast Guard, other retirement programs and annuitants' health benefits. [D]Includes veteran's compensation, readjustment benefits, life insurance, and housing programs.

RECENT HISTORY ON LABOR-HHS APPROPRIATIONS

- Since 1996, spending in the Labor-HHS appropriations bill has increased dramatically. Between 1996 and 1999, spending in this appropriations bill has increased from $63.4 billion to $83.9 billion, for an average annual growth rate of 9.8 percent.

- The President's budget requests $91.3 billion for 2000, a 8.8 percent increase over 1999 spending. The following table compares the 1996-1999 growth rate for Labor-HHS appropriations to the growth rates for selected other major programs in the budget.

Labor- HHS Appropriations Spending Comparisons
($ in Billions)

	Actual 1996	Projected 1999	Average Annual Growth Rate: 96-99
Labor-HHS approps BA	63.4	83.9	9.8%
Medicare- net	171.3	191.8	2.9%
mandatory	92.0	107.5	4.0%
Medicaid	347.1	387.5	2.8%
Social Security-mand.			

SOURCE: CBO

BREACHING THE CAPS, BREAKING THE PACT

- The negotiation of the discretionary caps through 2002 was an integral part of the bipartisan 1997 Balanced Budget Agreement. The 2000 Budget Resolution met the caps, but since then the hue and cry to breach the budget agreement and raise the caps has steadily grown in intensity.

- The debate on the 1999 Emergency Supplemental, the debate on the 302(b) subcommittee allocations for 2000 appropriations, and the debate so far on the 2000 spending bills have had a common underlying current -- the discretionary caps for 2000 are extraordinarily tight.

- U.S. fiscal policy is not alone when it comes to changing the playing rules in the middle of the game. On Wednesday, the *Financial Times* reported that cracks are appearing in the euro pact on fiscal deficit targets. The European Union (EU) agreed to economic guidelines (deficit-reduction targets being one piece) to coordinate EU economic policies in support of the introduction of the euro.

- On Tuesday, Italy's finance minister was able to persuade his EU colleagues to allow Italy to overshoot its 1999 budget deficit target of 2 percent of gross domestic product (GDP). Italy's minister argued that growth in Italy was poor and unemployment was high. The other finance ministers agreed to allow Italy's deficit to rise to 2.4 percent of GDP in 1999 if adverse economic conditions continue.

- While Italy's deficit is expected to stay well below the 3 percent of GDP ceiling permitted by the stability pact, this week's crack in the pact illustrates that EU governments are chafing at the pact's constraints.

BUDGET QUIZ

- On May 26, 1999 the House of Representatives adopted the "Social Security and Medicare Safe Deposit Box" and sent it to the Senate. That legislation would create a supermajority point of order against any budget resolution, bill or amendment that would "cause" an on -budget deficit or "increasing" an on-budget deficit (both, thereby effectively dipping into the currently projected Social Security surplus).

QUESTION: How many Budget Act supermajority points of order currently exist to protect the Social Security surplus?

ANSWER: Four. Knowledgeable budgeteers will recall that the Budget Act already contains these points of order: (i) section 301(i) prohibits consideration of a budget resolution which reduces the Social Security surplus, (ii) section 310(g) prohibits any changes to the Social Security program on any reconciliation legislation, (iii) section 311(a)(3) prohibits consideration of legislation which reduces the Social Security surplus relative to the levels set out in the budget resolution, and (iv) section 313(b)(1)(F) provides that any legislation considered on a reconciliation bill, which violates 310(g) shall be extraneous under the Byrd Rule.

DEPARTURE OF A VERY INFORMED BUDGETEER

Austin Smythe, a staff member of the Budget Committee for over 15 years, will be leaving on June 4, and has accepted a job at Lehman Brothers, D.C. office. Austin has served as senior analyst for energy issues and budget process and as deputy chief of staff. On behalf of Chairman Domenici, the staff director, and the entire committee staff, the *Bulletin* extends its sincerest gratitude for his loyal, dedicated and distinguished service, and its best wishes for the entire Smythe family in the future.